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S E C R E T SECTION 01 OF 04 BAKU 000595

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SUBJECT: AZERBAIJANI PRESIDENT TELLS THE DEPUTY SECRETARY
NAGORNO-KARABAKH BREAKTHROUGH IS POSSIBLE BY YEAR'S END

REF: A. BAKU 524

[1](#)B. BAKU 453

Classified By: Charge Donald Lu, for reasons 1.4 (b,d).

[1](#)1. (S) SUMMARY: In a wide-ranging set of meetings and dinner on July 10, President Aliyev told Deputy Secretary Steinberg that he believes that there is a good chance for agreement on the Nagorno-Karabakh Basic Principles by the end of the year. He warned that a breakthrough on Nagorno-Karabakh must precede a reopening of the Turkey-Armenia border. If not he believes this will undermine efforts to bring Armenia to the negotiating table on Nagorno-Karabakh. Aliyev recounted with glee how he lectured the Russian Gazprom CEO about Gazprom's unreliability as a trusted partner. He suggested that the EU finance the Nabucco Pipeline now as a matter of national security, rather than wait for transit and purchase agreements. Finally, he reported that he has information confirming Musavi's victory in the Iranian elections, which he described as a vote for change that will result in continuing tensions there. END SUMMARY.

[1](#)2. (U) On July 10, Deputy Secretary James Steinberg met with President Ilham Aliyev for three and one-half hours for a one-on-one meeting, a meeting of delegations and a dinner. The delegation meeting and dinner was attended by Foreign Minister Elmar Mammadyarov, Azerbaijani Ambassador to the U.S. Yashar Aliyev, EUR A/S Philip Gordon, EUR DAS Matthew Bryza, D Special Assistant Amy Scanlon and Charge Donald Lu.

[1](#)3. (C) The tone of the discussion throughout was notably warm and constructive -- absent the lecture and anger of previous interactions since the Turkey-Armenia Roadmap was initiated (reftels). The President appeared relaxed as evidenced by the unusually long amount of time he devoted to the meeting and dinner. Rather than simply be responsive to the Deputy Secretary's message, President Aliyev had prepared a number of points that he made sure to raise.

President Expresses Optimism on Minsk Group Process

[1](#)4. (S) President Aliyev expressed uncharacteristic optimism about a near-term breakthrough on NK. "We have a good chance to agree (on the Basic Principles) by the end of the year," he proclaimed. He said that in his public statements he was consciously trying to prepare the public "in a systematic way and not for the first time." On the two remaining issues, he said that there existed "conceptual agreement," but that one was an issue of terminology and the other would require being able to physically see the Lachin corridor. He said that Azerbaijanis had not seen the corridor for almost 20 years. After seeing it he believed Azerbaijan would understand the

dangers and be able to agree on the width of the corridor.

Turkey-Armenia Reconciliation must await an NK Breakthrough

15. (S) President Aliyev, in a measured and unemotional presentation, reviewed the reasons why the Turkey-Armenia process must happen only after a breakthrough on Nagorno-Karabakh (NK). He never used the word "linkage," although he argued that the issue of the closed border was essential to bring the Armenians to the table on NK. He argued that during the May NK discussions in Prague, Armenian President Serge Sargsian was not cooperative because Turkey had recently initialed the Turkey-Armenia Roadmap document. In contrast, the President noted, Sargsian was forward leaning in St. Petersburg just after Turkish Prime Minister Erdogan had announced that Turkey would never open its borders with Armenia until the "liberation" of NK. "A closed border can be a useful instrument," the President concluded.

16. (C) The Deputy Secretary emphasized the favored outcome in which both processes make significant progress so that the linkage issue is no longer relevant. A/S Gordon noted that the progress in St. Petersburg could reflect a Russian desire to receive credit for the breakthrough. He added that progress on the Turkey-Armenia process could also relieve pressure on Yerevan that might allow the Armenians greater flexibility domestically to pursue progress on NK.

Mistrust of Moscow

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17. (C) On his relations with Moscow, President Aliyev was thankful for Russia's role in the Minsk Group, but mistrustful of the role Russia continues to play on energy and Armenia. He said he believed Russian President Medvedev was sincere in playing a helpful role on NK. He added that Medvedev had personally told him that he wanted to find a final solution to the NK conflict.

18. (C) According to Aliyev, Medvedev also asked him to allow overflight of Russian military equipment to resupply its bases in Armenia. Aliyev laughed and said that Medvedev insisted that this equipment would be only for the use of Russian bases, but he knows the Russians then give the equipment to the Armenians.

19. (C) Aliyev described with pride how Azerbaijan refused to pay extortionist prices to Gazprom for Russian natural gas last year. With glee he went on to say that Gazprom CEO Alexei Miller this year begged to buy Azerbaijani gas. "I told him, 'I do not trust you or your company. Bring an (intergovernmental agreement) as you are not a reliable partner,'" the President recounted.

Continuing Frustration with the Turks over Gas Transit

110. (C) Aliyev had a clear message on Turkey gas transit -- he will sell to Russia and Iran if the Turks do not allow transit of Azeri gas to Europe. "Demand is growing. We now sell gas, oil products and electricity to Iran and Russia. Turkey must understand that we have a market all around us. They're wrong if they think we will wait for them," the President declared.

111. (C) Aliyev added that the Nabucco Pipeline would be left without sufficient gas volumes if the Turks get their way on the negotiations. He noted that the Turks want 8 billion cubic meters (bcm), but that this would leave nothing for Nabucco. The President added that Azerbaijan does not need the money from gas sales, but it is pursuing gas exports to Europe in order to strengthen the southern corridor to the West.

¶12. (C) The President assessed the problem in getting Turkey to agree on gas transit was 90 percent rooted in commercial interests. He said that Turkey insists on linking the transit issue for Shah Deniz Phase II gas with the price charged to Turkey for the past 18 months of Shah Deniz Phase I gas. The President said the President of the State Oil Company of Azerbaijan (SOCAR) was in Turkey trying to work out this issue with the Turkish Energy Minister ahead of the July 13 signing of the Nabucco inter-governmental agreement.

"Build it and They will Come" - Build the Pipeline First

¶13. (C) President Aliyev repeatedly made the pitch that the European Union (EU) should finance the Nabucco Pipeline now as a matter of national security, and not wait for transit and purchase agreements. He cited the Baku-Tbilisi-Ceyhan Oil Pipeline as an example of having the pipeline precede all of the other agreements.

¶14. (C) "We only need investment and the EU has the money. They need a centralized EU investment package as a matter of national security. Europeans believe that Nabucco will be financed by energy companies from the receiving states (Bulgargaz, MOL, OMV, and the Romanians). These companies have no money and no power," the President explained.

Musavi Won the Iranian Election as a Vote for Change

¶15. (C) Aliyev said that Iran has been transformed since the election and that these tensions would continue. "(Iranian Presidential Candidate) Musavi is one of (the elites). His victory was a movement for change. He won with a big margin. We are certain of that. There was an unbelievable turnout of 90 percent and a big manipulation when it came to the counting," the President noted.

¶16. (C) He said that his government has many sources in Iran as well as information from the thousands of Iranians traveling to Azerbaijan. He said that the dissatisfaction of

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the people is with the general situation, not specifically with President Ahmadinejad. He said that a well-placed source told his government that Supreme Leader Khamenei took his helicopter over the crowds and he saw more than a million people in the streets. This is when Khamenei became scared and decided he would support Ahmadinejad at any cost. "It is not the same country as it was before the election. Mullahs can't run an economy. The tensions will continue," he predicted.

¶17. (C) After a discussion about the Iranian nuclear weapons program, President Aliyev added that Iran is dangerous for Azerbaijan even without nuclear weapons. He recalled that shortly after independence, Iran sent spies and missionaries into Azerbaijan. They also broadcast a daily TV program on Seher TV in Azerbaijani language which is critical of the Azerbaijani Government for not supporting Iran.

¶18. (C) Aliyev said that he has taken steps to protect the secular lifestyle of Azerbaijanis, including an "informal request" to all TV channels not to show women in headscarves. Moreover, his government is working in the regions to prevent extremism by entertaining young people with musicians, discotheques and student events. The government also limits the number of young people who can travel abroad and closely monitors those who spend more than six months in Iran.

Ready to Advise Iraq on Working with Energy Companies

¶19. (C) The Deputy Secretary asked the President to consider

engaging the Iraqi Government, explaining that we are encouraging moderate governments to work with the Iraqis and, in particular, Azerbaijan could help the Iraqis learn how to work with foreign energy companies. The President said he would welcome advice about whom to talk to in Iraq. He admitted contact up until now had been limited, both by a lack of information about what is happening inside the Iraqi Government, but also by concern about the danger to staff that might be posted there.

¶20. (C) On working with foreign energy companies, President Aliyev had several suggestions. He noted that energy resources could be used to build new allies, as Azerbaijan has done with Greece, Bulgaria and Romania. He warned against using it for short-term financial gain, citing Azerbaijan's sale of gas to Georgia at sub-market prices. He thought income and expenditure transparency was important, noting the Extractive Industries Transparency Initiative and the Azerbaijani State Oil Fund as examples. Finally, he advised working only with companies that have an international reputation for good performance. He suggested that Azerbaijan could provide the Iraqis with a copy of its 1994 Production Sharing Agreement as a model.

Security Cooperation

¶21. (C) The President then quickly ran through a laundry list of further areas for possible security cooperation. The Foreign Minister asked to receive a briefing on U.S.- Russia Missile Defense negotiations, particularly as they relate to the Gabala Radar Station. The Deputy Secretary and A/S Gordon reviewed the talks in Moscow and noted that the Administration was formulating its policy on Missile Defense and it hoped to complete this process by year's end.

¶22. (C) Aliyev said that he would be happy to be a part of a Missile Defense structure involving the U.S. and Russia. He added that the Russian lease on Gabala expires in 2012 and they consider "totally unsatisfactory" the payments made by the Russian side for the previous lease. On the question of technical upgrades, the President said that he has not committed to anything, but would be willing to discuss the issue.

¶23. (C) On the proposal to contribute a battalion for Coalition activities in Afghanistan, the President aid, "We are ready to do that." Ambassador Aliyev asked whether training for this battalion would run afoul of Section 907 restrictions. The President also expressed concern about the reported \$10 million recommendation for NK assistance from the House Appropriations Committee.

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¶24. (C) The President repeated his interest in purchasing defensive weapons from NATO, particularly air defense equipment. For the first time, he added, "If it is not possible, it would be better to know it."

Comment

¶25. (C) President Aliyev was clearly making every effort to make a good impression on this first emissary from the new Administration. He focused his presentation on areas of common interest (energy, Russia, Iran), rather than on issues which divide us (democracy, Turkey-Armenia, and slow progress on security cooperation). Whether this constructive tone continues largely rests on whether the meeting of the Azerbaijani and Armenian presidents in Moscow this week is successful. Aliyev's mood over the past several months is directly tied to progress on Nagorno-Karabakh. For the moment, the mood is good.

¶26. (U) The Deputy Secretary has cleared this message.

